Internal Revenue Service
DEPARTMENT OF THE TREASURY

LB&I Concept Unit

Unit Name	Accounting Method Basics	
Primary UIL Code	446.00-00	General Rule for Methods of Accounting (Permissible v. Not Permissible)

Library Level	**Title**
Knowledge Base	Corporate/Business Issues & Credits
Shelf	Methods of Accounting and Timing
Book	Change in Methods
Chapter	Accounting Method Basics

Document Control Number (DCN)	COR-C-033
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General Overview

Accounting Method Basics

This unit provides an overview of basic accounting method concepts under IRC 446 that apply to all taxpayers.

A taxpayer computes taxable income under the method of accounting regularly used in keeping its books. A "method of accounting" is not defined by the Code or the regulations. In general, a method of accounting is a set of rules under which a taxpayer determines when to include income or to deduct an expense in computing taxable income.

In general, if the tax treatment of an item involves when it is deductible or includible in income, rather than whether it is deductible or includible in income, the issue involves timing, and it is a method of accounting.

A taxpayer chooses a method of accounting in the first year it reflects the item on its tax return in computing taxable income. Once a taxpayer adopts its chosen method it cannot change the adopted method without the Commissioner's consent. When a taxpayer adopts a method of accounting depends on whether the method is permissible or impermissible.

A change in accounting method (CAM) is a timing issue relating to the proper tax year in which a taxpayer recognizes income or deduction items. A CAM includes a change in an overall method of accounting, such as the cash method or an accrual method of accounting, or a change in the treatment of a material item. A material item is any item of income, deduction, gain, or loss that involves timing.

A taxpayer uses the voluntary change in accounting method procedures in Rev. Proc. 2015-13 (or its successor) to properly change an adopted method of accounting. Under these procedures, a method of accounting is changed prospectively (that is, on a yet to be filed tax return) generally by filing a Form 3115, *Application for Change in Accounting Method*. A taxpayer cannot change an adopted accounting method by filing an amended return unless specific guidance allows for an exception.

General Overview (cont'd)

Accounting Method Basics

Involuntary method change procedures in Rev. Proc. 2002-18 can be applied in the following circumstances:

- If the Service determines that the taxpayer's method of accounting does not clearly reflect income, the Service may place the taxpayer on a method of accounting that clearly reflects income under IRC 446(b).
- If the Service determines that the taxpayer changed its method of accounting without consent as required by IRC 446(e), the Service may:
  - Make any adjustments necessary to bring the method change into compliance (including the amount of the IRC 481(a) adjustment),
  - Place the taxpayer back on its prior method, or
  - Place the taxpayer on a proper method of accounting if the prior method was impermissible.

See Rev. Proc. 2002-18, section 2.06; Rev. Proc. 2015-13, section 12.02.

Relevant Key Factors

Accounting Method Basics
Key Factors
There are two concepts to consider when identifying a method of accounting. 1. Timing: A method of accounting must involve timing. If an accounting practice for an item does not permanently affect a taxpayer's lifetime income but changes the taxable year in which the taxpayer reports taxable income, the accounting practice for the item involves timing and is a method of accounting. In other words, if taxable income computed using two different methods shifts income or deductions from one year to another but ultimately results in the same lifetime taxable income, it involves timing and is an accounting method. For example, the MACRS recovery period a taxpayer uses to depreciate an asset determines when it deducts the asset's depreciable basis and is a method of accounting. 2. Consistency: Although a method of accounting may exist without a pattern of consistent treatment of an item, a method of accounting is not established in most instances without consistent treatment. See Treas. Reg. 1.446-1(e)(2)(ii)(a). A taxpayer adopts a permissible method of accounting by using it on the first return that reflects the overall method or the material item. A permissible method of accounting is one that complies with the Code, regulations, or other published guidance. Therefore, the method is presumed to clearly reflect income. A taxpayer adopts an impermissible method of accounting by using it on two or more consecutively filed returns. An impermissible method of accounting is a method that does not comply with the Code, regulations, or other published guidance. Therefore, the method is presumed to not clearly reflect income.

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Relevant Key Factors (cont’d)

Accounting Method Basics
Key Factors
Once a taxpayer adopts a method of accounting, it must obtain the consent of the Commissioner to change to a different method, regardless of whether the adopted method is permissible or impermissible. Rev. Proc. 2015-13 (or its successor) provides the procedures for a taxpayer to voluntarily change its accounting method. Generally, a taxpayer may not change an adopted method of accounting by amending prior tax returns. The intent of the consent requirement is to help lessen the Commissioner’s burden of administering the tax laws. The consent requirement serves to promote accounting uniformity, normalize the collection of revenue, prevent distortions and inconsistencies in reporting, and ensure that the government does not tax income twice or not at all. Requiring a taxpayer to obtain the Commissioner’s consent before changing its method of accounting gives the Commissioner authority to approve or disapprove a prospective change.

Detailed Explanation of the Concept

Accounting Method Basics

Analysis	Resources
What Is a Method of Accounting? Generally, a method of accounting is a set of rules used to determine when a taxpayer recognizes income and expenses for federal income tax purposes. The term “method of accounting” includes not only the taxpayer's overall method of accounting, such as the cash or accrual method, but also the accounting treatment of any material item. A material item is any item that involves timing. Accounting methods always involve a question of when a taxpayer should recognize income or deduct items for federal tax purposes. That is, an accounting method always involves timing. Whether an item constitutes a “method of accounting” is important for tax purposes because once a taxpayer adopts a method of accounting, the Commissioner’s consent is required to change it.	▪ Treas. Reg. 1.446-1(a)(1) ▪ Treas. Reg. 1.446-1(e)(2)(i) ▪ Treas. Reg. 1.446-1(e)(2)(ii)(a)

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Detailed Explanation of the Concept (cont'd)

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<tr><td><u>How Does a Taxpayer Adopt a Method of Accounting?</u>

It is important to determine whether a taxpayer has adopted a method of accounting. Once a taxpayer adopts a method of accounting, even an impermissible method, it may not change to a different method of accounting without first obtaining the Commissioner's consent. If a taxpayer changes its adopted method of accounting without obtaining the Commissioner's consent, it is not in compliance with IRC 446(e) and has made an unauthorized method change.

When a method of accounting is adopted depends on whether the method the taxpayer used in computing taxable income on the tax return was a "permissible" method or an "impermissible" method.</td><td>▪ IRC 446(b)
▪ Treas. Reg. 1.446-1(e)(2)(i)
▪ Treas. Reg. 1.446-1(e)(2)(ii)(a)
▪ Rev. Proc. 2015-13
▪ Pacific National Co. v. Welch - 304 U.S. 191, 193–95 (1938)</td></tr>
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Detailed Explanation of the Concept (cont'd)

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Analysis	**Resources**
How Does a Taxpayer Adopt a Method of Accounting? (cont'd) Permissible Method of Accounting A permissible method of accounting is a method that is presumed to clearly reflect income because it complies with the Code, regulations, or other published guidance. A taxpayer adopts a permissible method of accounting by using the method to compute taxable income on its first tax return or the first tax return that reflects the material item. A taxpayer filing its first tax return may adopt any permissible method of accounting. Example: In 2018, a taxpayer installed and placed in service a new commercially available software package and incurred costs of developing software in the process of installation or conversion. On its 2018 tax return, the taxpayer elected out of bonus depreciation. The taxpayer treated all the costs attributable to the software development as capital expenditures and properly amortized them ratably over a period of 36 months from the date of completion of the development. The taxpayer adopted a method of accounting for the software development costs when it filed its 2018 tax return.	▪ IRC 446(b) ▪ Treas. Reg. 1.446-1(e)(1) ▪ Rev. Proc. 2015-13 ▪ *Pacific National Co. v. Welch* - 304 U.S. 191, 193–95 (1938)

Detailed Explanation of the Concept (cont'd)

Accounting Method Basics	
Analysis	**Resources**
How Does a Taxpayer Adopt a Method of Accounting? (cont'd) Impermissible Method of Accounting An impermissible method of accounting is a method that does not comply with the Code, regulations, or other published guidance. In other words, an impermissible method is a method of accounting that is presumed not to clearly reflect income. A taxpayer adopts an impermissible method of accounting for a material item by treating the item in the same way on two or more consecutively filed tax returns. Example 1: In 2016, a taxpayer placed in service a new headquarters building. The taxpayer treated the entire basis as nonresidential real property (39-year MACRS recovery property) on its federal tax return for 2016 and 2017. In 2018, an accountant determined that a portion of the original basis included costs for sidewalks, landscaping, and shrubbery, which the taxpayer should have treated as Land Improvements (Asset Class 00.3) with a 15-year MACRS recovery period. The taxpayer adopted a method of accounting for these Land Improvements costs after treating them as nonresidential real property on the 2016 and 2017 tax returns (two consecutively filed returns) even though the method is impermissible.	▪ IRC 446(b) ▪ Rev. Rul. 90-38 ▪ Rev. Proc. 2015-13 ▪ *Greiner v. United States* - 122 Fed.Cl. 139 (2015), *aff'd* 651 Fed. Appx. 1000 (Fed. Cir. 2016)

Accounting Method Basics	
Analysis	**Resources**
How Does a Taxpayer Adopt a Method of Accounting? (cont'd) Impermissible Method of Accounting (cont'd) Example 2: In 2019, a taxpayer incurred professional fees to facilitate a taxable asset transaction described in Treas. Reg. 1.263(a)-5(a). The taxpayer, who was the acquirer in the transaction, paid and currently deducted these costs on its 2019 federal tax return. The transaction costs represented a new item for the taxpayer in 2019 and should have been capitalized under Treas. Reg. 1.263(a)-5. No additional facilitative costs related to this transaction were paid or deducted in subsequent tax year(s). The taxpayer adopted the impermissible method of accounting of currently deducting the transaction costs when the 2020 tax return was filed as the taxpayer did not change the treatment of the item on the 2020 tax return.	

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Detailed Explanation of the Concept (cont'd)

Accounting Method Basics	
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How Does a Taxpayer Change a Method of Accounting? A taxpayer can voluntarily change a method of accounting. In general, a taxpayer requests a change from one method of accounting to another method of accounting by filing a Form 3115, *Application for Change in Accounting Method*, using either the automatic or the non-automatic method change procedures. Automatic Method Change The automatic method change procedures apply if a taxpayer is changing an item contained in the current List of Automatic Changes (currently Rev. Proc. 2022-14). Each automatic change in accounting method has a designated change number (DCN). In general, the taxpayer attaches a completed original Form 3115 to its timely filed tax return for the year of change and implements the method according to the terms and conditions of Rev. Proc. 2015-13, as well as the terms and conditions that are unique to that DCN.	▪ Rev. Proc. 2015-13 ▪ Rev. Proc. 2022-14 ▪ Audit Tool - List of DCNs

Detailed Explanation of the Concept (cont'd)

Accounting Method Basics	
Analysis	**Resources**
How Does a Taxpayer Change a Method of Accounting? (cont'd) Non-Automatic Method Change If a taxpayer changes a method of accounting for an item that is not listed as an automatic method change, it must follow the current non-automatic method change procedures to request consent from the IRS National Office. The taxpayer files the original Form 3115 with the IRS National Office during the year of change. If the IRS National Office grants consent for the method change, it will issue the taxpayer a letter ruling (Consent Agreement) containing the terms and conditions of the method change. The taxpayer attaches the Consent Agreement to its timely filed return and implements the new method of accounting according to the terms and conditions. The taxpayer must obtain consent before changing its method of accounting on a filed tax return. Additionally, a taxpayer may be required to use the non-automatic method change procedures if it is not eligible to use the automatic method change procedures. For example, generally, a taxpayer may not use the automatic method change procedures if it changed a method for a specific item during any of the five taxable years ending with the year of change. In this case, the taxpayer must follow the non-automatic method change procedures.	▪ Rev. Proc. 2015-13

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Detailed Explanation of the Concept (cont'd)

Accounting Method Basics

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<u>How Does the Service Change a Taxpayer's Method of Accounting?</u>

A Service-initiated change is an involuntary method change. The Service has the authority to change a taxpayer's method of accounting in the following circumstances:
▪ The method of accounting a taxpayer used on a tax return is impermissible and is presumed not to clearly reflect income.
▪ The taxpayer made an unauthorized method change and its method is improper due to not properly adopting the method, not requesting consent to change to the method, or not receiving consent to change to the method.

The Commissioner has broad discretion in determining whether a taxpayer's method of accounting clearly reflects income. Once the Commissioner determines that a method of accounting does not clearly reflect income (that is, the method is impermissible), the Commissioner has broad discretion to select a method of accounting that does properly reflect income (that is, a permissible method). However, the Commissioner does not have discretion to change a taxpayer from one permissible method to another permissible method of accounting.

For an unauthorized method change, the Commissioner may require a taxpayer to change back to its former method, even when the taxpayer changed from an impermissible to a permissible method.
</td><td>
▪ IRC 446(b)
▪ IRC 446(e)
▪ Rev. Proc. 2002-18
▪ Thor Power Tool Co. v. Commissioner - 439 U.S. 522 (1979)
▪ Wilkinson-Beane, Inc. v. Commissioner - 420 F.2d 352 (1st Cir. 1970)
▪ Capitol Federal Savings & Loan v. Commissioner - 96 T.C. 204 (1991)
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Detailed Explanation of the Concept (cont'd)

Accounting Method Basics	
Analysis	**Resources**
What Is an "Election" and How Does It Differ from the General Method of Accounting Rules? The Code and regulations contain many elections that a taxpayer may use to choose a tax treatment for certain items. Election procedures differ and depend on the election. For example, a taxpayer can make certain elections by using the method on its filed tax return or by attaching an election statement containing the required language with its return. Elections may impact the timing of a deduction or inclusion of income. Such elections represent a different way to adopt a method of accounting for the item elected. The doctrine of election provides, generally, that a taxpayer who elects a proper method of reporting on a filed return may not later revoke or change an election to substitute another, albeit correct, method without the Commissioner's consent. A valid election is generally irrevocable, but a taxpayer may obtain consent with a private letter ruling (PLR) to revoke it in limited circumstances. A taxpayer cannot revoke or make a valid election by filing a Form 3115 or an amended tax return unless provided for in specific guidance. Example: A taxpayer elected under IRC 453(d) not to apply the installment method to an installment sale disposition of property for the taxable year including the sale transaction. Instead, the entire gain from the installment sale was reported on the taxpayer's tax return that was filed for the year. Treas. Reg. 15a.453-1(d)(4) provides that an election not to report a sale under the installment method, once made, may be revoked only with the written consent of the Commissioner.	▪ *Pacific National Co. v. Welch* - 304 U.S. 191, 193–95 (1938) ▪ *Roy H. Park Broadcasting, Inc. v. Commissioner* - 78 T.C. 1093, 1134 (1982) ▪ *Penn-Dixie Steel Corp. v. Commissioner* - 69 T.C. 837, 846-48 (1978) ▪ *Dunavant v. Commissioner* - 63 T.C. 316, 319-20 (1974)

Detailed Explanation of the Concept (cont'd)

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<tr><td>
<u>What Is Not a Method of Accounting?</u>

The tax treatment of an item is not a method of accounting if it does not involve timing or if a taxpayer does not treat the item consistently. In these circumstances, a taxpayer does not need consent to change the treatment of the item, and it can be changed in any open year on an amended return. Below are examples of certain adjustments or changes in accounting practice that are not accounting method changes:

Correction of a Mathematical Error – An error in arithmetic (i.e., addition, subtraction, multiplication, or division).
Correction of a Posting Error – An error in the act of transferring an original entry to a ledger. For example, a taxpayer makes a posting error when it erroneously excludes 200 invoices from its gross income. The exclusion is not a timing adjustment because it permanently understates the taxpayer's lifetime taxable income.
Errors in the Computation of Tax Liability – An error in the computation of tax liability, such as errors in computation of the foreign tax credit, net operating loss, percentage depletion, or investment credit.
Permanent Adjustment – If changing the practice permanently changes a taxpayer's lifetime taxable income, the change is not a change in method of accounting. For example, the regulations provide that reclassifying a shareholder's salary as corporate dividends, or reclassifying deductible business expenses as nondeductible personal expenses, permanently changes a taxpayer's lifetime taxable income, and is not a method change.

</td><td>

Treas. Reg. 1.446-1(e)(2)(ii)(b)
Huffman v. Commissioner - 126 T.C. 322, 344-345 (2006), aff'd 518 F.3d 357 (6th Cir. 2008)
Wayne Bolt & Nut Co. v. Commissioner - 93 T.C. 500, 510-511 (1989)

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Detailed Explanation of the Concept (cont'd)

Accounting Method Basics	
Analysis	**Resources**
What Is Not a Method of Accounting? (cont'd) ▪ Change in Underlying Facts – A change in the timing of income or deduction that results from the application of an existing method of accounting to different or modified facts is not a change in accounting method. For example, a change in the underlying terms of a contract is a change in underlying facts in the year the facts (that is, the contract terms) changed. ▪ Change in Character – A change in the character of an item may or may not constitute a change in method of accounting, depending on the facts. If the character of an item changes, but not the year in which the item is reported, it is not a change in method of accounting. For example, a change from ordinary income to capital gain is not a change in method of accounting. However, a change from treating a transaction as a sale to treating the transaction as a lease is a change in accounting method since the accounting practice involves timing.	

Detailed Explanation of the Concept (cont'd)

Accounting Method Basics	
Analysis	**Resources**
<u>What Is an IRC 481(a) Adjustment?</u> A CAM is generally made with an IRC 481(a) adjustment. IRC 481(a) requires those adjustments necessary to prevent duplication or omissions of amounts when a taxpayer computes its taxable income under a method of accounting different from the method used to compute taxable income for the preceding taxable year(s). The tax rules and regulations identify specific method changes that are made without an IRC 481(a) adjustment using the cut-off method. The IRC 481(a) adjustment is computed as of the beginning of the taxable year for which the method is being changed (that is, the year of change). Simply stated, the adjustment represents the cumulative difference (without regard to the statute of limitations) between income or expense recognized under the present and proposed methods. The IRC 481(a) adjustment may increase taxable income (positive adjustment) or decrease taxable income (negative adjustment). For voluntary (taxpayer-initiated) method changes, a negative IRC 481(a) adjustment is taken into income entirely in the year of change, and a positive IRC 481(a) adjustment is generally taken into income ratably over four years. However, Rev. Proc. 2015-13, sections 7.03(3) and (4) provide exceptions to the four-year spread of a positive IRC 481(a) adjustment.	▪ IRC 481(a) ▪ Rev. Proc. 2002-18 ▪ Rev. Proc. 2015-13, section 2.06(1) ▪ IRM 4.11.6.5.2 ▪ *Graff Chevrolet Co. v. Ellis Campbell Jr.* - 343 F.2d 568 (5th Cir. 1965)

Detailed Explanation of the Concept (cont'd)

Accounting Method Basics	
Analysis	**Resources**
What Is an IRC 481(a) Adjustment? (cont'd) For involuntary (Service-initiated) method changes, the IRC 481(a) adjustment is taken into income entirely in the year of change, whether positive or negative. The purpose of IRC 481(a) is to adjust a taxpayer's income in the year of change for amounts attributable to prior years that would otherwise escape taxation or be duplicated by using the new method. Under a cut-off method, the taxpayer continues to use the former method for transactions originating prior to the year of change and applies the new method only to new transactions beginning with the year of change. Thus, for a period the taxpayer uses two different methods of accounting for similar transactions, depending on the year the transaction originated. There is no IRC 481(a) adjustment when using the cut-off method. Most changes in accounting method, whether voluntary or involuntary, require an IRC 481(a) adjustment. An examining agent may not make a change on a cut-off method to reflect the hazards of litigation. See Rev. Proc. 2002-18, section 5.04(2).	▪ IRC 481(a) ▪ Rev. Proc. 2002-18

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Examples of the Concept

Accounting Method Basics
Examples
Below are some common accounting method issue areas (non-exclusive list): ▪ Depreciation method change issues involving changes in recovery periods, conventions, safe-harbor methods, or additional first-year depreciation - IRC 167, 168, and 179; Treas. Reg. 1.446-1(e)(2)(ii)(d); Chief Counsel Notice 2004–007. − Capitalization issues - IRC 263(a) and 263A. − Tangible assets. − Intangible assets. ▪ Direct and indirect inventory costs. ▪ Hedging transactions - Treas. Reg. 1.446-4. ▪ Accrual to cash method of accounting (and vice versa) - IRC 448. ▪ Nonaccrual experience method - IRC 448(d)(5). ▪ Accounting for income items that involve timing - IRC 451. − Income recognition, in general. − Advance payments - Gift cards. − Advance payments - Goods and services. − Deferred income. − Contractual allowances. − Prepaid income. ▪ Accounting for long-term contracts - IRC 460.

Examples of the Concept (cont'd)

Accounting Method Basics
Examples (cont'd)
▪ Accounting for liabilities that involve timing - IRC 461. − Accrued bonuses and other compensation. − Liabilities incurred but not reported (IBNR). − Warranties. − Rebates and refunds. − Customer loyalty programs. − Other accrued liabilities. ▪ Inventory valuation issues including LIFO inventory - IRC 471 and 472. ▪ Mark to market accounting method - IRC 475.

Index of Referenced Resources

Accounting Method Basics
IRC 446
IRC 481(a)
Treas. Reg. 1.446-1
Rev. Rul. 90-38
Rev. Proc. 2002-18
Rev. Proc. 2015-13 (or successor)
Rev. Proc. 2022-14 (or successor)
IRM 4.11.6.5.2
Audit Tool - List of DCNs
Capitol Federal Savings & Loan v. Commissioner - 96 T.C. 204 (1991)
Dunavant v. Commissioner - 63 T.C. 316, 319-20 (1974)
Graff Chevrolet Co. v. Ellis Campbell Jr. - 343 F.2d 568 (5th Cir. 1965)
Greiner v. United States - 122 Fed.Cl. 139 (2015), *aff'd* 651 Fed. Appx. 1000 (Fed. Cir. 2016)
Huffman v. Commissioner - 126 T.C. 322, 344-345 (2006), *aff'd* 518 F.3d 357 (6th Cir. 2008)
Pacific National Co. v. Welch - 304 U.S. 191, 193–95 (1938)

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Roy H. Park Broadcasting, Inc. v. Commissioner - 78 T.C. 1093, 1134 (1982)
Thor Power Tool Co. v. Commissioner - 439 U.S. 522 (1979)
Wayne Bolt & Nut Co. v. Commissioner - 93 T.C. 500, 510-511 (1989)
Wilkinson-Beane, Inc. v. Commissioner - 420 F.2d 352 (1st Cir. 1970)

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Training and Additional Resources

Accounting Method Basics	
Type of Resource	**Description(s)**
Databases / Research Tools	▪ Corporate/Business Issues & Credits KB, Change in Methods Book – Ch. 1 - *Accounting Method Basics* – Ch. 3 - *What is not a Method of Accounting* – Ch. 4 - *Voluntary Change in Method (Taxpayer-Initiated)* – Ch. 5 - *Involuntary Change in Method (Service-Initiated)* – Ch. 6 - *IRC 481(a) Adjustments & Computations* – Ch. 8 - *Elections: Dealing with Election Problems*
Reference Materials	▪ Form 3115 - *Application for Change in Accounting Method* ▪ Form 3115 Instructions ▪ Pub. 538 - *Accounting Periods and Methods*
Other Training Materials	▪ Accounting Method Changes PPT – 2019 Centra ▪ Accounting Method Principles PPT – 2018 Centra

Glossary of Terms and Acronyms

Term/Acronym	Definition
Adopting a Method of Accounting	A taxpayer adopts a method of accounting by using it consistently on its tax returns. In general, a taxpayer adopts a permissible method of accounting by using it on the first return that reflects the overall method or material item and adopts an impermissible method of accounting by using it on two or more consecutively-filed returns. Once adopted, a taxpayer must secure the Commissioner's consent to change to a different method.
Automatic Change in Accounting Method	A change described in the List of Automatic Changes (Rev. Proc. 2022-14 or successor) for which a taxpayer is eligible to request the Commissioner's consent to make a change in accounting method under the automatic method change procedures (Rev. Proc. 2015-13 or successor).
CAM	Change in Accounting Method – A change in the overall plan of accounting or a change in the tax treatment of a material item.
Consistency	Consistency requires the treatment of a material item in the same way in determining the gross income or deductions in two or more consecutively filed tax returns (without regard to any change in status of the method as permissible or impermissible).
Cut-off Method	Under a Cut-off Method, only the items arising on or after the beginning of the year of change are accounted for under the new method of accounting. Any items arising before the year of change continue to be accounted for under the taxpayer's former method of accounting.
DCN	Designated Change Number – The number assigned to a specific automatic method change.
IBNR	Liabilities Incurred But Not Reported
Impermissible Method of Accounting	A method that does not comply with the Code, regulations, or other published guidance. The Service does not consider an impermissible method to clearly reflect income.
Improper Method of Accounting	Generally, a method a taxpayer uses after an unauthorized method change. However, this term is often used interchangeably with impermissible method.

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Glossary of Terms and Acronyms (cont'd)

Term/Acronym	Definition
Involuntary Method Change	A Service-initiated change in accounting method.
IRC 481(a) Adjustment	A change in method of accounting generally requires an adjustment under IRC 481(a). IRC 481(a) requires those adjustments necessary to prevent amounts from being duplicated or omitted in the computation of taxable income when the items are taken into account using a new or different method.
IRM	Internal Revenue Manual
Material Item	Any item of income or deduction, or gain or loss that involves the timing of recognition of the item.
Method of Accounting	In general, a method of accounting is a set of rules used to determine when a taxpayer takes income and expenses into account for federal income tax purposes.
Non-Automatic Change in Accounting Method	A change a taxpayer is not eligible to use the automatic method change procedures (Rev. Proc. 2015-13 or successor).
Permanent Adjustment	A change to the tax treatment of an item that permanently changes a taxpayer's lifetime taxable income. A permanent adjustment is not a change in accounting method.
Permissible Method of Accounting	A method that is in accordance with the Code, regulations, or other published guidance. The Service presumes a permissible method of accounting to clearly reflect income.
PLR	Private Ruling Letter
Present (Current) Method	The taxpayer's present method of accounting is the method the taxpayer is currently using on its tax returns. It is the method the taxpayer is requesting the Commissioner's consent to change, or the method the Service is changing.
Proper Method of Accounting	This term is often used interchangeably with "permissible" method of accounting, but technically a proper method is one that a taxpayer has properly adopted or changed to in compliance with the method change rules.

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Glossary of Terms and Acronyms (cont’d)

Term/Acronym	Definition
Proposed Method	The method of accounting the taxpayer is requesting the Commissioner’s consent to change to or to which the Service is changing the taxpayer.
Prospective Method Change	A change in accounting method effective on a yet to be filed tax return. It is generally a taxpayer’s next filed tax return.
Timing Adjustment	A change to tax treatment that does not permanently change a taxpayer's lifetime taxable income but does or could change the taxable year in which the taxpayer takes the item into account in determining taxable income (that is, a change in method of accounting).
Unauthorized Method Change	A taxpayer-initiated accounting method change that does not comply with all the provisions of the applicable revenue procedure.
Voluntary Method Change	A taxpayer-initiated change in accounting method (automatic or non-automatic).
Year of Change	In general, the year of change is the first taxable year the new method is to be used.

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Index of Related Practice Units

Associated UIL(s)	Related Practice Unit
446.04-05	*Identifying and Handling Claims for Changes in Accounting Methods*